

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

August 27, 2002

### **CBO Finds: Republican Policies Cause \$1.3 Trillion More Debt Than White House Acknowledges**

Dear Democratic Colleague:

Today's new report from the Congressional Budget Office provides the latest chapter in a troubling story: under Republican stewardship, the budget continues deteriorating at a rapid rate. CBO projects \$1.3 trillion more in deficits and debt than the Bush Administration, and concludes that the President's policies will tap the Social Security Trust Fund surplus every year for the next ten years and beyond. Republican tax cuts are the primary cause, even using the President's own estimates.

Without enactment of any new policies, CBO estimates that last year's projected ten-year unified budget surplus of \$5.6 trillion will dwindle to \$336 billion. Excluding Social Security, CBO projects a \$2.0 trillion deficit, meaning that the Bush Administration will be diverting at least \$2.0 trillion from the Social Security Trust Fund to pay for general operations of government.

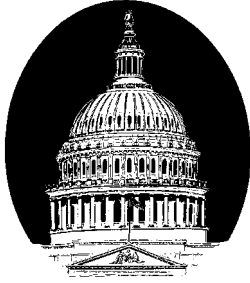
And the news gets worse. CBO's figures are a **baseline** projection, assuming that current policy remains unchanged. When the President's policies, including the \$541 billion in new tax cuts and \$1.1 trillion in added spending, largely for defense, proposed in July in his Mid-Session Review, are added to CBO's baseline, the budget consumes the entire Social Security surplus, the entire Medicare surplus, and adds substantially to the national debt.

Neither the White House nor Congressional Republicans have a plan to get the budget out of deficit or stop the raid on the Social Security. Democrats have repeatedly called for a bipartisan budget summit, but Republicans have repeatedly rejected this idea. Today's numbers are a sharp reminder that such a summit is long overdue.

The House Budget Committee's Democratic staff has prepared the attached report, graphs and tables analyzing the new CBO report. I hope you find them helpful. As always, please feel free to call either me or the Committee staff with questions.

Sincerely,

John M. Spratt, Jr.  
Ranking Democratic Member



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## CBO Budget and Economic Outlook: An Update

### Republican Policies Cause \$1.3 Trillion More Debt Than White House Acknowledges

CBO's *Update* delivers a clear verdict: The budget, under Republican stewardship, is deteriorating at a rapid rate. CBO projects \$1.3 trillion more in deficits and debt than the Bush Administration, and concludes that the President's policies will tap the Social Security trust fund, spending the surplus every year for the next ten years and beyond.

- Between 2002 and 2011— without enactment of any new policies — the budget will swing \$5.3 trillion in the wrong direction. The ten-year surplus of \$5.6 trillion projected last year will dwindle almost to the vanishing point, to \$336 billion. New policies will, of course, be enacted. Take two examples: enacting the Administration's defense policies, which cost far more than current services, or making permanent the 2001 tax cut. Either will wipe out the rest of the surplus.
- CBO projects a \$2.0 trillion **deficit**, excluding Social Security, in sharp contrast to the \$3.1 trillion non-Social Security **surplus** projected last year. This means that the Bush Administration will be diverting at least \$2.0 trillion from the Social Security trust fund to pay for general operations of the government, and even more if its policy initiatives are enacted.
- Since March 2001, every single CBO forecast has predicted lower surpluses and higher deficits than the one before it. The problem is getting worse, and the Bush Administration has no plan to correct it.

#### 1. Unenacted Bush Policies, Including New Tax Cut, Dig Deficit Hole Deeper

As troubling as CBO's results are, they are only the beginning of the bad news. That's because CBO's projection is a **baseline** projection. It assumes that current policy remains unchanged. When the President's policies are added to CBO's baseline, such as \$541 billion in

new tax cuts and \$1.1 trillion in added spending (much of it for defense) as proposed in July in his *Mid-Session Review*, any remaining surplus disappears.

- When the cost of the President's policies are added to CBO's baseline, the budget shows a cumulative deficit (excluding Social Security) of \$3.2 trillion for 2003 - 2012. In this situation, the President's policies consume the entire Social Security surplus, all of the Medicare surplus, and add at least a trillion dollars to Treasury debt held by the public.

## **2. Republican Tax Cuts Responsible for Diverting Social Security Surplus**

The President has sought to shift responsibility for this massive fiscal reversal onto everything except his own policies. But even the estimates released by the White House last month show that the President's policies, mainly his tax cuts, are to blame.

- According to White House estimates, Republican tax cuts are responsible for the disappearance of 40 percent of the surplus — more than the war, the recession, or the cost of September 11.
- Without the tax cuts, the budget would not invade the Social Security Trust Fund surplus. According to the OMB's July estimates, the President's \$1.5 trillion tax cut of last year, plus the extra \$541 billion of tax cuts proposed in July and related debt service, exceed \$1.968 trillion. This is the amount of the Social Security Trust Fund that OMB acknowledges it will have to borrow and spend to run the government.

## **3. White House Forecast is \$1.3 Trillion More Favorable than CBO Forecast**

Though CBO's estimated unified deficit for this year, of \$157 billion, is essentially the same as OMB's deficit, CBO's outlook of the ten-year budget projects a bottom line that goes \$1.3 trillion deeper in deficit than the White House's scenario.

- Part of this difference results from CBO's inclusion of this year's supplemental appropriation and the assumption that its cost will persist for ten years. Even if one does not extend the effects of the supplemental, OMB's baseline forecast is still \$1.0 trillion more optimistic than CBO's forecast for 2003 through 2012.
- This difference results from "blue sky" in the Bush Administration's economic forecast and from technical assumptions that the revenue boom of the 1990s will return.

## **4. Republicans Break Repeated Promises to Protect Social Security**

Before enactment of their tax cuts in 2001, Republicans promised repeatedly to protect 100 percent of the Social Security and Medicare surpluses. As recently as last August, the Bush Administration noted with approval in its *Mid-Session Review* for Fiscal Year 2002 that:

*A strong bipartisan consensus has arisen in this country, and in the Congress, to preserve very large surpluses as a threshold condition of public finance. Both parties and both the Legislative and Executive Branches, in this Administration and in the previous one, have concurred in maintaining a surplus at least the size of the Social Security surplus.*

The Bush Administration embraced this goal only to abandon it and adopt a budget that will consume the entire Social Security surplus this year and for years to come, according to CBO.

- CBO projects that the public debt will not be paid down to its 2001 level until 2011 — even without changes in policy. Adding the cost of the President’s policies to CBO’s baseline shows that the debt would not return to its 2001 level until long after 2012. This reversion to increasing public debt occurs in the budget even though the economy has performed almost as well as the Administration forecast last February.
- President Clinton and Democrats in Congress put the government on a fiscally responsible path. GDP grew faster, more jobs were created, and for eight straight years the bottom line of the budget got better. In 1999, the government achieved a budget surplus that saved the entire Social Security Trust Fund surplus, and that in 2000 exceeded the entire Medicare Trust Fund surplus as well. At the beginning of 2001, CBO projected that the budget would be big enough to save the entire Social Security surplus, the entire Medicare surplus, and then some for the next ten years.

## **5. Republican Claims on Fiscal Discipline Are a Sham**

The President has announced that he would “hold the line” on fiscal discipline — but “holding the line,” as his budget defines it, means borrowing and spending the Social Security surplus for at least the next ten years. To the President, “holding the line” means not spending \$5.1 billion included in the supplemental appropriations bill.

- That \$5.1 billion represents less than one percent of the \$541 billion of the **additional** tax cuts that the President proposes in his budget this year. It also represents less than one-third of one percent of the \$1.7 trillion (including interest) of the original Bush tax cuts.
- That \$5.1 billion is less than two-tenths of one percent of the \$3.2 trillion deficit outside Social Security over the next ten years that results from the President’s policies.

## **6. Past Time for Bipartisan Budget Summit**

Neither the White House nor congressional Republicans have a plan to get the budget out of deficit or to stop the raid on the Social Security and Medicare trust funds. Faced with a fiscal reversal of \$5 trillion over 2002-2011, the Bush Administration calls only for more: for \$541 billion more in tax cuts and for \$1.1 trillion more in spending. We need a bipartisan summit and a new budget based on the fiscal realities in this *Update*.